

DEPT. OF INSURANCE  
BY CE

**In the Matter of:**

**Docket No.:** 01A-228-INS

**TRAVELERS INDEMNITY COMPANY**

## CONSENT ORDER

NAIC #25658

**Respondent**

Examiners for the Department of Insurance (the "Department") conducted a market conduct examination of Travelers Indemnity Company (IND). The Report of Examination of the Market Conduct Affairs of IND alleges that IND violated A.R.S. §§ 20-385, 20-400.01, 20-448, 20-1120, 20-1631 and 20-1656.

IND wishes to resolve this matter without formal proceedings, admits that the following Findings of Fact are true, and consents to the entry of the following Conclusions of Law and Order.

## **FINDINGS OF FACT**

1. IND is authorized to transact property and casualty insurance pursuant to Certificates of Authority issued by the Director.

2. The Examiners were authorized by the Director to conduct a market conduct examination of IND. The on-site examination covered the time period from January 1994 to July 1998 and was concluded on June 8, 1998. Based on their findings, the Examiners prepared the "Report of Examination of the Market Conduct Affairs of Travelers Indemnity Company" dated June 8, 1998.

1           3.     The Examiners reviewed five personal automobile cancellations issued  
2 by the Company during the time frame of the examination and found that IND failed to  
3 issue non-renewal notices according to statute on three policies.

4           4.     The Examiners reviewed three homeowner cancellation/non-renewal  
5 notices issued by the Company during the time frame of the examination and found  
6 that IND failed to provide proof of mailing of the cancellation of two homeowner  
7 policies.

8           5.     IND is a member of the Insurance Service Office ("ISO"), a property and  
9 casualty rating organization duly licensed by the Department to file rates and forms on  
10 behalf of its members. IND has also independently filed certain rates and forms.  
11 Such rates, rules and forms filed by the IND, or filed on its behalf, are included in this  
12 Order's reference to IND's filed rates and rules.

13          6.     The Examiners reviewed 43 commercial automobile policies issued  
14 during the time frame of the examination and found as follows:

15           a.     IND applied a schedule rating, business discretionary modification  
16 (BDM) or other rating factor to 12 ineligible policies.

17           b.     IND failed to apply its schedule rating on seven policies.

18           c.     IND failed to apply filed rates in accordance with its filing on 10  
19 policies.

20           d.     IND failed to provide adequate documentation of schedule/DBM  
21 credit/debits on seven policies.

22           e.     IND failed to document the justification for changes in  
23 schedule/BDM credits on eight policies.

24           f.     IND failed to retain premium development in order to verify  
25 compliance on eight policies.



1 g. IND exceeded the individual schedule risk characteristic  
2 maximums on 12 policies.

3 h. IND applied the schedule rating plan in conflict with its filed plan  
4 on five policies.

5 i. IND failed to apply experience rating on 15 eligible policies.

6 j. IND failed to used its filed premium payment plan on 10 policies.

7 k. IND failed to used the correct risk classification on five policies.

8 7. The Examiners reviewed 12 commercial package policies issued during  
9 the time frame of the examination and found as follows:

10 a. IND bound coverage over 90 days without the Director's approval  
11 on two policies.

12 b. IND failed to consider the application of the schedule rating plan  
13 on six policies that were eligible.

14 c. IND failed to use the correct loss cost entry level to experience  
15 table on three policies.

16 d. IND used an "A" rate different than the filed rate on three policies.

17 e. IND failed to develop the composite rates according to filings on  
18 two policies.

19 f. IND failed to include documentation for the application of  
20 schedule/BDM modifications used in the premium determination on two policies.

21 g. IND failed to document justification for the schedule/BDM  
22 modification changes on two policies.

23 h. IND failed to evidence the calculation of the experience  
24 modification used on three policies.

1 i. IND failed to document the development of the multiple location  
2 premium dispersion credit applied to one policy.

3 j. IND failed to document and justify expense reduction credits on  
4 one policy.

5 k. IND failed to retain or produce premium development worksheets  
6 for premium verification and compliance on five policies.

7 l. IND failed to apply experience rating on one policy that was  
8 eligible.

9 m. IND failed to use its filed Premium Payment Plan on six policies.

10 n. IND applied an unfiled premium modification on one policy.

11 o. IND failed to use the correct rating classification on two policies.

12 p. IND failed to adjust rating basis on two policies after a large audit  
13 reported large increases in exposure.

14 q. IND failed to rate for all exposures on four policies.

15 8. The Examiners reviewed three policies from the company's Specialty  
16 Insurance Division (SID) issued by IND for the time frame of the examinations and  
17 found as follows:

18 a. IND used unfiled driver risk modifications on three commercial  
19 auto fleet policies.

20 b. IND used unfiled commodity risk rate codes on one commercial  
21 auto fleet policy.

22 c. IND failed to follow its "Specialty Auto Filing" on three commercial  
23 auto fleet policies.

24 d. IND failed to include the composite rate detail and endorsement  
25 on three commercial auto fleet policies.



9. IND's failure to follow its filed rates and rules resulted in 14 insureds being overcharged a total of \$29,801 for commercial automobile and package policies. All refunds for commercial automobile and package policies have been paid based upon the results of the Travelers "self audit" on file with the Department and the Company. Two Specialty Insurance Division policyholders were overcharged a total of \$1,759 that has not been repaid.

## CONCLUSIONS OF LAW

1. IND violated A.R.S. §20-1631(C) by failing to send the appropriate notice of non-renewal on personal automobile policies.

2. IND violated A.R.S. §20-1656 by failing to evidence proof of mailing on homeowner policy cancellations.

3. IND-violated A.R.S. §20-385 by not using filed rates.

4. IND violated A.R.S. §20-400.01(A) by failing to apply its schedule rating/business discretionary modification, by not considering the application of schedule rating when the risks were eligible, by not using filed rates (other than "A" rates) and by using "A" rates that were different than the filed "A" rates, by failing to develop composite rating according to its filings, by failing to use the correct loss cost entry level to experience table, by not following its specialty auto filing and by not attaching the composite rate endorsement.

5. IND. violated A.R.S. §§20-385 (A) and 400.01(A) by using unfiled driver risk modifications and unfiled commodity rating codes.

6. IND violated A.R.S. §20-400.01(B) by failing to provide any documentation or by providing inadequate documentation of the schedule rating/BDM credit/debit factors; by not documenting the justification for the change in schedule/BDM credits applied; by not providing documentation of the experience

1 calculation used and by failing to document the development of the multiple premium  
2 dispersion credits.

3 7. IND violated A.R.S. §§20-400.01(B) and 20-448(C) by applying  
4 undocumented expense reductions.

5 8. IND violated A.R.S. §20-400.01(D) by failing to retain premium  
6 development documentation in order to verify compliance.

7 9. IND violated A.R.S. §§20-400.01(A) and 20-448 by exceeding the  
8 maximum credits allowed under schedule/BDM plans, by not applying experience  
9 rating when policies were eligible; by using a premium payment plan other than the  
10 one filed; by using unfiled premium modifications, by not using correct risk  
11 classifications, by not adjusting premium for a large audited exposure and by not  
12 rating for all coverages or exposures.

13 10. IND violated A.R.S. §20-1120(B) by binding coverage over 90 days  
14 without the Director's approval.

15 11. Grounds exist for the entry of the following Order in accordance with  
16 A.R.S. §§20-220 and 20-456.

17  
18 **ORDER**

19 **IT IS ORDERED THAT:**

- 20 1. IND shall cease and desist from:
- 21 a. Failing to provide the notice of non-renewal of personal  
22 automobile policies in accordance with statute.
- 23 b. Canceling homeowner policies after the first 60 day underwriting  
24 period, other than as permitted by law.
- 25



1 c. Not considering the application of the schedule rating plan on  
2 eligible risks and exceeding risk characteristics plan maximums.

3 d. Failing to use filed rates, other than as permitted by law.

4 e. Failing to maintain and provide adequate documentation of  
5 schedule/DBM credits and debits and changes in those credits and debits.

6 f. Failing to retain premium development materials in order to verify  
7 compliance.

8 g. Failing to use the filed premium payment plan.

9 h. Failing to use correct risk or rating classifications.

10 i. Binding coverage beyond 90 days with the Director's approval.

11 j. Failing to use the correct loss cost entry level to experience table.

12 k. Failing to develop composite rates according to its filings.

13 l. Not applying experience when risks are eligible on commercial  
14 auto and package policies.

15 m. Failing to adjust the rating basis when audits report large  
16 increases in exposure.

17 n. Applying undocumented expense reductions and modifications on  
18 package policies.

19 o. Failing to include the composite rate detail and endorsement on  
20 commercial auto fleet policies.

21 p. Not rating for all exposures and using unfiled rating factors and  
22 modifications.

23 2. Within ninety (90) days of this Order's filed date, IND shall submit to the  
24 Director for approval and implement written procedures to monitor Arizona issued  
25 policies as to the issues outlined in Item 1 of this Order. These procedures shall

1 include a written action plan to ensure that all underwriting personnel comply with the  
2 statutes and rules noted above in the transaction of IND's insurance business.

3 3. Within 90 days of the filed date of this Order, IND shall refund the  
4 amounts listed in Exhibit A of this Order, plus interest. Interest shall be calculated at  
5 the rate of 10% per annum from the date the premium overpayment was received to  
6 the date of refund. Each payment shall include a letter to the insured in a form  
7 previously approved by the Director. A list of payments, giving the name and address  
8 of each party paid, the amount of interest paid, and the date of payment, shall be  
9 provided to the Department within 90 days of the filed date of this Order.

10 4. The Department shall be permitted, through authorized representatives,  
11 to verify that IND has complied with all provisions of this Order.

12 5. IND shall pay a civil penalty of \$11,700 to the Director for remission to  
13 the State Treasurer for deposit in the State General Fund in accordance with A.R.S.  
14 §20-220. The civil penalty shall be provided to the Market Conduct Examination  
15 Section of the Department prior to the filing of this Order.

16 6. The Report of Examination of the Market Conduct Affairs of Travelers  
17 Indemnity Company as of June 8, 1998 including the letter of objection to the Report  
18 of Examination shall be filed by with the Department after this Order is issued.

19 DATED at Phoenix, AZ this 4<sup>th</sup> day of October, 2001.

20   
21 \_\_\_\_\_

22 **Charles R. Cohen**  
23 **Director of Insurance**  
24  
25



EXHIBIT A

Premium Overcharges

<u>Poliy #</u>	<u>Amt. Due</u>
7LHT227T059-2-94	\$1,513
7LHT227T004-5-94	<u>\$246</u>
<b>Total</b>	<b>\$1,759</b>

**CONSENT TO ORDER**

1. Travelers Indemnity Company has reviewed the foregoing Order.

2. Travelers Indemnity Company admits the jurisdiction of the Director of Insurance, State of Arizona, admits the foregoing Findings of Fact, and consents to the entry of the Conclusions of Law and Order.

3. Travelers Indemnity Company is aware of the right to a hearing, at which it may be represented by counsel, present evidence and cross-examine witnesses. Travelers Indemnity Company irrevocably waives the right to such notice and hearing and to any court appeals related to this Order.

4. Travelers Indemnity Company states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Consent Order and that it has entered into this Consent Order voluntarily.

5. Travelers Indemnity Company acknowledges that the acceptance of this Order by the Director of the Arizona Department of Insurance is solely for the purpose of settling this matter and does not preclude any other agency or officer of this state or its subdivisions or any other person from instituting proceedings, whether civil, criminal, or administrative, as may be appropriate now or in the future.

6. John R. Nealon, who holds the office of Assistant Secretary of Travelers Indemnity Company, is authorized to enter into this Order for it and on its behalf.

September 27, 2001  
(Date)

**Travelers Indemnity Company**

By

John R. Nealon  
(Company)



1 **COPY of the foregoing mailed/delivered**  
2 **this 10th day of October , 2001, to:**

3  
4 Sarah Begley  
5 Deputy Director  
6 Mary Butterfield  
7 Assistant Director  
8 Consumer Affairs Division  
9 Paul J. Hogan  
10 Chief Market Conduct Examiner  
11 Market Conduct Section  
12 Deloris E. Williamson  
13 Assistant Director  
14 Rates & Regulations Division  
15 Steve Ferguson  
16 Assistant Director  
17 Financial Affairs Division  
18 Alexandra Shafer  
19 Assistant Director  
20 Life and Health Division  
21 Nancy House  
22 Chief Financial Examiner  
23 Terry L. Cooper  
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25

16 DEPARTMENT OF INSURANCE  
17 2910 North 44th Street, Second Floor  
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18  
19 Travelers Indemnity Company  
20 Jon Brynga, Market Conduct Officer  
21 Commercial Lines Operations, 5GS  
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